

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204
December 8, 2006

EXECUTIVE SESSION

An Executive session was held pursuant to Indiana Code 5-14-1.5-6.1(b)(9). As required by IC 5-14-1.5-6.1(d), only subject matter related to IC 5-14-1.5-6.1(b)(9) was discussed.

REGULAR SESSION

Board Members Present

Ken Cochran, Chair
Chuck Schalliol, Vice Chair
Kathy Ettensohn
Regina Overton
Matt Murphy
Bob Welch
Tony Armstrong

Board Members Absent

None

Others Present

Iliana Nikolova, Mercer Investment Consulting
Doug Kryscio, Mercer Investment Consulting
Doug Todd, McCready & Keene
Elaine Beaty, McCready & Keene
Richard Lenar, McCready & Keene
Linda Imonti, KPMG
Greg Strack, State Budget Agency
Curt Smith, Strategic Investment Solutions

PERF Staff Present

David Adams, Executive Director
Terry Magid, Chief Operating Officer & Deputy Director
Andrea Unzicker, General Counsel
Shawn Wischmeier, Chief Investment Officer
Jeff Hutson, Director of Communications
Michael Henning, Director of Human Resources
Patricia Bush, Director of Finance
Erin Hankins, Executive Assistant
Jeri Mains, Legal Assistant

Meeting called to order at 1:03 by Chairman Cochran.

I. Approval of Minutes

MOTION duly made and carried to approve the minutes from the October 20, 2006 board meeting with correction.

Proposed by: Regina Overton
Seconded by: Tony Armstrong
Votes: 6 in favor, 0 opposed, 0 abstentions

MOTION duly made and carried to approve the minutes from the November 6, 2006 board meeting with correction.

Proposed by: Tony Armstrong
Seconded by: Kathy Ettensohn
Votes: 6 in favor, 0 opposed, 0 abstentions

II. Old Business

- Audit Update

Terry Magid reported that the State Board of Accounts (SBOA) audit is complete. PERF received an unqualified opinion on their financial statement for the first time in four (4) years.

- Pension Management Oversight Commission

Andrea Unzicker provided the board with a Pension Management Oversight Commission (PMOC) update. PMOC is a legislative body that focuses on retirement fund matters for the State of Indiana. PMOC meets each year from August through October.

PMOC addressed the following subjects during the 2006 session:

- Benefit Enhancements
 - Changes to the 1977 Police and Firefighters' Fund
 - Judges' Plan
 - State Excise Officers, Gaming Agents and Conservation Officers' Plan
 - Pension Comparison Study
 - Legislators' defined contribution pilot program extension
- Administrative Recommendation

Shawn Wischmeier discussed Cash Management with the board. Mr. Wischmeier explained PERF's current cash management process and the proposed changes. Staff recommends enhancing the process with a cash overlay program ("Cash Equitization"). Mr. Wischmeier explained the

benefits of setting up a Cash Equitization Program. Staff recommends that the board approve establishing a Cash Equitization program and selecting a service provider.

MOTION duly made and carried to accept the Resolution as read.

<i>Proposed by:</i>	<i>Kathy Ettensohn</i>
<i>Seconded by:</i>	<i>Matt Murphy</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

- **Strategic Roadmap Update**

David Adams introduced Linda Imonti to the board. Ms. Imonti is a co-managing partner with KPMG. KPMG was selected by PERF to develop a strategic roadmap. Ms. Imonti explained KPMG's approach to the project.

Their approach will consist of overlapping phases. Their team will begin collecting knowledge from internal and external sources on the current state. They will then formulate the future state, determine alternatives and develop a roadmap.

KPMG will produce a total of eight deliverables throughout the course of their engagement. Each deliverable will correspond with a particular phase of the engagement. A five-year strategic plan will be delivered to PERF and will include information that was obtained and analyzed throughout the course of the entire engagement.

III. Executive Director Report

David Adams reviewed PERF's quarterly scorecard measures. Mr. Adams discussed the recent '77 Police and Firefighter Fund advisory committee meeting. He presented to the Committee a customized Bridge To Retirement brochure. Bridge To Retirement brochures have been created and customized for all of PERF's plans. Mr. Adams explained that 94% of members that turned in their retirement application 60 days in advance during the month of October experienced absolutely no payment interruption. In January 2005 only 5% of members experienced no payment interruption. Mr. Adams remarked that Customer Satisfaction had increased to 85%.

IV. New Business

- **Benefits**

- Contribution Rates

Doug Todd from McCreedy and Keene presented the 2008 contribution rates effective July 1, 2007 and January 1, 2008 for the State of Indiana. Mr. Todd reviewed four items with the board:

1. A PERF Experience Study
2. Revised Asset Smoothing
3. Funded Statuses for 2006
4. Employer Contribution Rates

MOTION duly made and carried to accept the Employer Contribution Rates.

<i>Proposed by:</i>	Bob Welch
<i>Seconded by:</i>	Kathy Ettensohn
<i>Votes:</i>	6 in favor, 0 opposed, 0 abstentions

New Units & Enlargements

Terry Magid reviewed the list of new units and enlargements for the board and requested approval.

MOTION duly made and carried to approve the list of new units and enlargements.

<i>Proposed by:</i>	Kathy Ettensohn
<i>Seconded by:</i>	Matt Murphy
<i>Votes:</i>	6 in favor, 0 opposed, 0 abstentions

Compensation Plan

Mike Henning reviewed the proposed compensation structure with the board excluding executive and investment positions. Mr. Henning reviewed a compensation structure that classified positions into six salary bands.

Bob Roeder with Mercer Consulting spoke regarding the PERF compensation plan for executive and investment positions. PERF contracted Mercer Human Resource Consulting (Mercer) to determine the market value and assess the current compensation program for the following executive and management positions:

- Executive Director
- Chief Investment Officer
- Chief Operating Officer (Deputy Director)
- Director of Equities Investments
- Chief Technology Officer (Deputy Director)
- Director of Fixed Income Investments

- General Counsel
- Director of Alternative Investments

In order to ensure that the board and PERF's Executive Director have sufficient flexibility and range to fill key positions and to retain sufficiently talented and motivated employees, it is recommended that the board approve the adoption of the entire compensation system to include all recommended salary bands and Mercer's recommended 50th percentile salary ranges Executive and Investment positions.

MOTION duly made and carried to approve the six salary bands portion of the recommendation and to review executive and investment compensation at the February board meeting.

Proposed by:

Kathy Ettensohn

Seconded by:

Bob Welch

Votes:

6 in favor, 0 opposed, 0 abstentions

- **Investments**

Investments Update

Shawn Wischmeier provided the board with an Investments update.

Alternatives Plan

Mr. Wischmeier reviewed the Alternative Asset Class Implementation Plan with the board.

There are four alternative asset classes.

- Private Equity (\$1.2B target investment)
- Absolute Return (\$300M target investment)
- Real-Estate (\$450M target investment)
- Commodities(\$300M target investment)

The plan presented outlined the projected timing and steps for implementation of the various asset classes.

Private Equity

Mr. Wischmeier discussed four private equity opportunities. These recommendations would increase total private equity commitments from 24% to 31% of the desired commitment level.

The first investment proposal is Greenpark Capital Partners III & IIIS (GCP III). GCP III is a 500 million Euro fund focused on secondary transactions of private equity funds.

Greenpark is a majority woman-owned investment firm and has produced top-tier results in their two prior funds.

Mr. Wischmeier introduced Curt Smith with Strategic Investment Solutions (SIS) who discussed the benefits of Greenpark Capital III and IIIS.

It is recommended that the board approve up to a \$50 million commitment to Greenpark Capital Partners III & IIIS pending final due diligence and document review by legal counsel. Additionally, it is recommended that the board give approval for three potential one-year term extensions as dictated in the fund's offering memorandum.

MOTION duly made and carried to approve up to a \$50 million commitment to Greenpark Capital Partners III & IIIS pending final due diligence and document review by legal counsel and for three potential one-year term extensions as dictated in the fund's offering memorandum.

<i>Proposed by:</i>	<i>Matt Murphy</i>
<i>Seconded by:</i>	<i>Kathy Ettensohn</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

The second investment proposal is to Lehman Brothers Fund XVIII VC Program (LBVC). LBVC's portfolio will target a broadly diversified set of venture funds.

It is recommended that the board approve a commitment of up to a \$50 million investment in Lehman Brothers Fund XVIII VC Program pending final due diligence and document review by legal counsel. Additionally, it is recommended that the board approve a term limit of up to 15 years for the Lehman Brothers Fund XVIII VC program.

MOTION duly made and carried to approve a commitment of up to a \$50 million investment in Lehman Brothers Fund XVIII VC Program pending final due diligence and document review by legal counsel and a term limit of up to 15 years for the Lehman Brothers Fund XVIII VC program.

<i>Proposed by:</i>	<i>Matt Murphy</i>
<i>Seconded by:</i>	<i>Bob Welch</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

The third investment proposal is to Terra Firma Capital Partners III (TCP III). TCP III will invest more than \$4 billion in buyout opportunities focused on large asset-rich companies with complex business models.

Terra Firma has invested more than 8 billion Euros in 23 companies with a current IRR of more than 40%. Terra Firma provides needed capital and focuses its value creation activities on improving operational capabilities.

It is recommended that the board approve up to a \$50 million commitment to Terra Firma Capital Partners III, L.P. pending final due diligence and document review by legal counsel. Additionally, it is recommended that the board give approval for two potential one-year extensions to the term of this fund.

MOTION duly made and carried to approve up to a \$50 million commitment to Terra Firma Capital Partners III, L.P. pending final due diligence and document review by legal counsel and for two potential one-year extensions to the term of this fund.

<i>Proposed by:</i>	<i>Regina Overton</i>
<i>Seconded by:</i>	<i>Matt Murphy</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

The fourth investment proposal is PACVEN Walden Ventures VI, L.P. (PWV VI). PWV VI is a venture capital fund focused on investing in early-stage high technology companies focused on communication, semiconductor, software, and IT services.

It is recommended that the board approve a commitment of up to a \$20 million investment in PACVEN Walden International VI, L.P. pending final due diligence and document review by legal counsel. Additionally, it is recommended that the board give approval for up to three one-year extensions to the term of this fund.

MOTION duly made and carried to approve a commitment of up to a \$20 million investment in PACVEN Walden International VI, L.P. pending final due diligence and document review by legal counsel and for up to three one-year extensions to the term of this fund.

<i>Proposed by:</i>	<i>Matt Murphy</i>
<i>Seconded by:</i>	<i>Bob Welch</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

- **Financial & Budget**

Financial Update

Mr. Magid introduced Patricia Bush to the board. Ms. Bush reviewed the financials with the board. PERF has grown to \$15.6B in net assets as of October 31st which is an approximate \$2B increase over the same period last year, or a 15% gain.

- **Proposed 2007 Board Meeting Dates**

Mr. Adams provided the board with the proposed 2007 board meeting dates for approval.

MOTION duly made and carried to approve the 2007 board meeting dates.

<i>Proposed by:</i>	<i>Bob Welch</i>
<i>Seconded by:</i>	<i>Chuck Schalliol</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

- **Executive Session Action**

The board discussed the performance compensation of the executive director in executive session. The board recommended approving a 4% increase for the Executive Director effective January 1, 2007 and reviewing executive compensation at the February board meeting.

MOTION duly made and carried to approve a 4% increase for the Executive Director effective January 1, 2007 and review executive compensation at the February board meeting.

<i>Proposed by:</i>	<i>Kathy Ettensohn</i>
<i>Seconded by:</i>	<i>Bob Welch</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

V. Adjournment

Adjourned at 3:59 p.m.